

EXECUTIVE SECRETARIAT
ROUTING SLIP

file

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR		X		
4	D/ICS				
5	DDI		X		
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	NIO/ECON		X		
20	NIO/EA		X		
21	D/OGI		X		
22	NIO/USSR		X		
SUSPENSE		Date			

Remarks	23. D/SOVA	X
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Executive Secretary

28 Dec 84
Date



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

Executive Registry
84 - 10129

December 27, 1984

UNCLASSIFIED
(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE SECRETARY OF TRANSPORTATION
THE SECRETARY OF ENERGY
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF
OF STAFF
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on
International Economic Policy (SIG-IEP)

Attached are the minutes of the SIG-IEP meeting held on
December 18, 1984.

Edward J. Stanley
for
Christopher Hicks
Executive Secretary and
Executive Assistant to the Secretary

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SENIOR INTERDEPARTMENTAL GROUP ON INTERNATIONAL ECONOMIC POLICY

December 18, 1984

11:00 p.m.

Roosevelt Room

Attendees:

Treasury

Secretary Regan, Chairman
Beryl W. Sprinkel
David C. Mulford
Ronald E. Myers,

OVP

Admiral Murphy

State

W. Allen Wallis
Paul Wolfowitz

Defense

Stephen D. Bryen
James A. Kelly

Agriculture

Secretary Block
Daniel Amstutz

Commerce

Secretary Baldrige
Lionel Olmer

Transportation

Adm Harold E. Shear
Jeffrey Shane

Energy

Jan W. Mares
George Bradley

OMB

Joseph Wright
Alton G. Keel

CIA



USTR

Amb William E. Brock
James Murphy

NSC

Roger Robinson
David Wigg

CEA

William A. Niskanen
Joseph Stone

Cabinet Affairs

Larry Herbolsheimer

OPD

Roger Porter

Before addressing the agenda items, Chairman Regan provided a brief status report on money market developments that morning, noting the impact of falling interest rates on the LDC debtors the SIG-IEP had dealt with in the past.

U.S.-USSR Experts Meeting in Moscow

Under Secretary Olmer (Commerce), described the Expert Group's mission to Moscow in January to explore whether a Cabinet-level meeting with the Soviets would be feasible in the spring. He

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noted the careful preparations for the meeting, emphasizing there was no intention to modify, or even suggest potential modification in, U.S. policy relating to U.S.-USSR trade in high tech and high tech products, or products otherwise controlled by CoCOM or the United States. Would only explain U.S. policy to the Soviets. No one argues great potential for trade with Soviet Union; however, U.S. business is losing legitimate trade opportunities, hampered by Soviet practices and policies. Commerce's responsibility to help U.S. businesses abroad and will do so in line with President's twice publicly-stated policy of seeking improved relations.

SIG-IEP asked to help resolve issues Soviets may raise. Commerce accepts lead agency views; key questions are:

- 1) Furskins -- no impact on U.S. but noted Congressional consent needed.
- 2) Nickel certification -- how far to push for certification re Cuban nickel.
- 3) Aeroflot landing rights.
- 4) Port access -- extent of prior notification of Soviet ship landings.
- 5) U.S.-USSR tax protocol -- how to respond, if raised.

Secretary Baldrige reaffirmed no intention to change policy towards the Soviet Union but only to conform with the President's desire for more constructive working relations.

Admiral Shear (Transportation) indicated his agency's strong concern regarding port access -- inappropriate to discuss in Moscow meeting and give away leverage useful whenever Maritime Treaty renewal negotiations resume.

Secretary Block (Agriculture) indicated he is not convinced new maritime treaty wanted. Unclear when there will be negotiations. Prior notification of 14 days is real trade restriction, discriminating now against an important U.S. agricultural buyer and market we are trying to develop.

Admiral Murphy (Office of the Vice President) noted that some precautions were necessary to protect U.S. communication facilities in sensitive ports, although he supported a change in time required for notification. Mr. Olmer agreed that security problem had been real in past. However, reduction to seven days prior notification would conform with requirements for other Eastern Bloc ships.

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Dr. Bryen (Defense) raised two issues of concern:

- 1) Should the Experts raise human rights and if not, what would be the public reaction at home?
- 2) Should we not consider how to treat expansion of Soviet business agents in the United States?

Mr. Olmer responded human rights would come up automatically should Soviets raise Most Favored Nation question. Saw no reason for team to initiate issue. Regarding treatment of Soviet citizens, there is no intention to negotiate this issue in January, but its implications could be considered later here. Secretary Baldrige concurred.

Under Secretary Wallis (State) suggested it was clear that much work would be necessary following the January meeting. Mr. Olmer, noting five questions still to be decided, asked agencies to convey their views promptly.

U.S.-Japan Economic Issues

Secretary Regan noted three outstanding issues:

- whether the President should mention specific sectors for negotiation
- the quantitative target which would supplement the negotiations
- whether the President should mention possible retaliation.

Under Secretary Sprinkel said Japanese market is tough to crack. Need to draw on strengths of various approaches whose common thread is full participation of Japan in world economy. Recommended approach has three elements: 1) overall target; 2) MOSS for selected sectors; and 2) leverage to stimulate movement and discourage backsliding.

Target ensures change in numbers, but is arbitrary. Should be credible, yet ambitious. Suggests an increase in manufactured imports as percentage of Japan's GNP by one-third over three years, from 2.8 percent in 1983 to 3.72 percent by 1986. Target would supplement MOSS, focussing on systemic change. MOSS ensures that any target is not met through gimmickery. Essential to MOSS that it be launched with Nakasone blessing, including selected sectors. Needs continuous high level involvement and detailed knowledge of structure and operation of sector. Need to use carefully-considered leverage.

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Ambassador Brock (USTR) said MOSS alone would take too long to achieve much results. Does not believe President should identify sectors, can mention for illustrative purposes. Key question is the target. Proposed one-third increase over three years is inadequate. Will not strengthen Nakasone. MOSS and high level approach have failed in the past. Japanese love goals, must set them high and tell Nakasone it is his responsibility to meet them, otherwise jeopardizes U.S.-Japan relations.

Secretary Baldrige believes that Nakasone is sincere but not all powerful, needs U.S. help. Notes prolonged debate on Japan. Time to stop worrying about unlikely consequences and take action. Believes there is a reasonable consensus that:

- 1) MOSS can play a role, although insufficient by itself.
- 2) The President should take a results-oriented approach to the Nakasone meeting -- a target should be set. He personally thought a 50 percent increase in Japanese imports was necessary.
- 3) The President should indicate that if no concrete results, may be forced to retaliate through the trade laws.
- 4) High-level follow up.

Under Secretary Sprinkel noted that he too had proposed a 50 percent increase in dollar terms from \$32 - \$48 billion during 83/86 -- a one-third increase as a GNP percentage.

Ambassador Brock found those figures to be small noting that U.S.-manufactured goods has increased by six times that amount in one year alone. Supports a doubling of Japanese imports.

Joseph Wright (OMB) cautioned that setting goals might not stop with Japan or manufactured imports. The Japanese might limit capital exports to the United States. William Niskanen (CEA) believed our first obligation is not to deceive ourselves -- the Japanese imbalance results from their savings and investment levels. Forced increase in manufacturers' imports could lead to a reduction in imports of U.S. agricultural goods and/or increase in Japanese exports. Quantitative target offers no realistic goals regarding the Japanese trade balance or U.S. interests, but could substantially change international trade and hurt American agriculture.

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Ambassador Brock commented that U.S. agriculture will die without more aggressive trade policies. He noted with frustration that SIG-IEP papers had been released to the Japanese. The Chairman urged utmost secrecy regarding SIG-IEP materials and discussions, and called for a meeting, Thursday, December 20.

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